

Audit

Report



U.S. TRANSPORTATION COMMAND'S REPORTING OF PROPERTY, PLANT,  
AND EQUIPMENT ASSETS ON THE FY 2000 DOD AGENCY-WIDE  
FINANCIAL STATEMENTS

Report No. D-2001-170

August 3, 2001

Office of the Inspector General  
Department of Defense

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### **Acronyms**

AMC	Air Mobility Command
CIP	Construction-In-Progress
DCS	Defense Courier Service
DFAS	Defense Finance and Accounting Service
HQ	Headquarters
IPMS	Integrated Processing Management System
MSC	Military Sealift Command
MTMC	Military Traffic Management Command
PP&E	Property, Plant, and Equipment
TRANSCOM	Transportation Command
USTRANSCOM	United States Transportation Command



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August 3, 2001

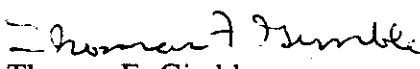
MEMORANDUM FOR COMMANDER IN CHIEF, U.S. TRANSPORTATION  
COMMAND  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE DENVER  
NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on U.S. Transportation Command's Reporting of Property,  
Plant, and Equipment Assets on the DoD FY 2000 Agency-Wide Financial  
Statements (Report No. D-2001-170)

We are providing this report for your information and use. We performed the audit to support the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Ms. Barbara A. Sauls at (703) 604-9129 (DSN 664-9129) (bsauls@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

  
Thomas F. Gimble  
Acting  
Deputy Assistant Inspector General  
for Auditing

## **Office of the Inspector General, DoD**

**Report No. D-2001-170**

(Project No. D2001FH-0044.000)

**August 3, 2001**

### **U.S. Transportation Command's Reporting of Property, Plant, and Equipment Assets on the FY 2000 DoD Agency-Wide Financial Statements**

#### **Executive Summary**

**Introduction.** This audit was performed to support the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. The accuracy of the \$78 billion of property, plant, and equipment reported on the FY 2000 DoD Agency-Wide Financial Statements is essential to DoD receiving favorable audit opinions on its financial statements. The U.S. Transportation Command reported property, plant, and equipment with a net value of \$1.4 billion in the FY 2000 DoD Agency-Wide Financial Statements.

The U.S. Transportation Command is one of nine Unified Combatant Commands. It consists of the following components: Headquarters, Transportation Command; Air Mobility Command; Military Traffic Management Command; Military Sealift Command; and Defense Courier Service. It is the only Unified Combatant Command that includes a working capital fund (Transportation Working Capital Fund). The U.S. Transportation Command's financial statement data were included with the Other Defense Organizations-Working Capital Funds for FY 2000.

**Objectives.** Our objective was to determine the accuracy of the U.S. Transportation Command's reporting of property, plant, and equipment (real and personal property) assets on the FY 2000 DoD Agency-Wide Financial Statements. We reviewed the operating procedures and documentation used to support the FY 2000 DoD Agency-Wide Financial Statements. In addition, we assessed compliance with laws and regulations and the management control program.

**Results.** Although problems with the U.S. Transportation Command reporting of property, plant, and equipment were reported previously, the Command had not developed an adequate strategy to fix the problems and did not report the problems as a material weakness on its Annual Statement of Assurance to the Office of the Secretary of Defense and Congress. Headquarters, Transportation Command, and the Air Mobility Command could not support the amounts included in the FY 2000 DoD Agency-Wide Financial Statements for property, plant, and equipment. For Headquarters, Transportation Command, we could not verify \$535.1 million of assets or the \$216.4 million of accumulated depreciation (net of \$318.7 million) for those assets. Similarly, for the Air Mobility Command, we could not verify the

\$1,527.6 million of assets or the \$837.9 million of accumulated depreciation (net of \$689.7 million) for those assets. For details of the audit result, see the Finding section of the report. See Appendix A for details on the review of the management control program.

**Summary of Recommendations.** We recommend that the Commander in Chief, U.S. Transportation Command, and the Director, Defense Finance and Accounting Service Denver, jointly develop an implementation plan for obtaining the information for financial reporting of Headquarters, Transportation Command, and Air Mobility Command property, plant, and equipment from standard Air Force property systems. We also recommend that until U.S. Transportation Command's financial reporting is improved, the Commander in Chief, U.S. Transportation Command, add property, plant, and equipment reporting as a material weakness on its Annual Statement of Assurance, as required by the Federal Managers' Financial Integrity Act.

**Management Comments.** The Deputy Commander in Chief, U.S. Transportation Command, and the Director for Accounting, Defense Finance and Accounting Service, concurred with our recommendations and held a meeting in May 2001 to address the property, plant, and equipment issues. Both agreed to develop a plan to obtain timely and accurate property, plant, and equipment financial data from existing financial and property systems. The estimated completion date for all planned actions is September 2003. The Deputy Commander also agreed to include property, plant, and equipment reporting as a material weakness in the next Annual Statement of Assurance. See the Finding section of the report for a discussion of the management comments and the Management Comments section for the complete text.

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## Background

This audit was performed to support the requirements of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The Chief Financial Officers Act established a requirement for agencies to prepare annual audited financial statements. The value of property, plant, and equipment (PP&E) comprises a significant portion of the U.S. Transportation Command (USTRANSCOM) assets. For FY 2000, USTRANSCOM reported \$1.4 billion in PP&E. Amounts reported by the five U.S. Transportation Command components are presented in Table 1.

<b>Table 1. Net Amounts of PP&amp;E Reported by Component - FY 2000</b> (in millions)	
<b>Component</b>	<b>Net Amount Reported</b>
Headquarters, Transportation Command (HQ TRANSCOM)	\$ 318.7
Air Mobility Command (AMC)	689.7
Military Traffic Management Command (MTMC)	372.9
Military Sealift Command (MSC)	29.4
Defense Courier Service (DCS)	3.0
<b>Total</b>	<b>\$ 1,413.7</b>

**Unified Combatant Commands.** Operational control of the U.S. combat forces is assigned to the nation’s Unified Combatant Commands. Unified Combatant Commands are composed of forces from two or more Military Services. Unified Combatant Commands have broad and continuing missions and are normally organized on a geographical basis. The number of Unified Combatant Commands is not fixed by law or regulations and may vary from time to time. Currently, there are nine Unified Combatant Commands: U.S. European Command, U.S. Pacific Command, U.S. Joint Forces Command, U.S. Southern Command, U.S. Central Command, U.S. Space Command, U.S. Special Operations Command, U.S. Strategic Command, and U.S. Transportation Command.

Our audit focused on the PP&E possessed by USTRANSCOM and the U.S. Special Operations Command. This report discusses what we identified for USTRANSCOM. We will publish a separate report for the U.S. Special Operations Command. USTRANSCOM consists of the following components: Headquarters, Transportation Command; Air Mobility Command; Military Traffic Management Command; Military Sealift Command; and Defense Courier Service. We did limited audit work for the U.S. Strategic Command, primarily to determine where the headquarters element and its components reported their PP&E. Each of the unified command headquarters has a Service

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executive agent that provides support. We concluded that with the exception of USTRANSCOM and U.S. Special Operations Command, the headquarters elements report their PP&E through their Service executive agent and the individual components report their PP&E through their parent Service.

The Defense Finance and Accounting Service (DFAS) reported USTRANSCOM financial statement amounts as part of the Other Defense Organizations-Working Capital Funds for FY 2000. Table 2 lists the details by account for the \$1.4 billion for general PP&E, net of depreciation, reported by USTRANSCOM for FY 2000.

<b>Table 2. Net Amount of PP&amp;E Reported by Account - FY 2000</b> (in millions)	
Type PP&E	Amount Reported
Land	\$ 8.7
Real Property	632.9
Depreciation-Real Property	(276.0)
Construction in Progress	22.2
Equipment	1,024.9
Depreciation-Equipment	(524.9)
ADP Management Systems	1,083.2
Amortization-ADP Management Systems	(559.4)
Other Natural Resources	2.1
<b>Total (Net) Amount Reported</b>	<b>\$ 1,413.7</b>

## Objectives

Our objective was to determine the accuracy of the USTRANSCOM reporting of PP&E assets (real and personal property) included in the FY 2000 DoD Agency-Wide Financial Statements. We assessed compliance with laws and regulations and the management control program. See Appendix A for a discussion of the audit scope, methodology, and review of the management control program. See Appendix B for prior coverage related to the audit objectives.

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## Accuracy of U.S. Transportation Command's Property, Plant, and Equipment Reporting

Although problems with the USTRANSCOM reporting of PP&E were reported previously, the Command had not developed an adequate strategy to fix the problems and did not report the problems as a material weakness on its Annual Statement of Assurance to the Office of the Secretary of Defense and Congress. HQ TRANSCOM and AMC could not support the amounts included in the FY 2000 DoD Agency-Wide Financial Statements for PP&E. These conditions occurred because HQ TRANSCOM and AMC did not use subsidiary ledgers as the basis for financial reporting of PP&E asset values and for calculating depreciation amounts. Because of control and information deficiencies, we could not verify that the amounts reported for PP&E were complete and could be relied upon to accurately represent the value of HQ TRANSCOM and AMC PP&E. For HQ TRANSCOM, we could not verify \$535.1 million for assets and \$216.4 million of depreciation for a net of \$318.7 million, and for AMC, we could not verify \$1,527.6 million for assets and \$837.9 million for depreciation, for a net amount of \$689.7 million.

### Financial and PP&E Reporting Policy

**Departmental Financial Reports Roles and Responsibilities.** DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6A, "Reporting Policies and Procedures," January 2001, chapter 2, "Departmental Financial Reports Roles and Responsibilities," states that the DFAS customer is responsible for ensuring the accuracy, completeness, timeliness, and documentary support for all data generated by the customer (USTRANSCOM). Further, it requires the customer to maintain audit trails in sufficient detail to permit tracing of all transactions with a unique identity. The same chapter notes that DFAS customers often maintain the supporting records for many financial balances that are outside the control of DFAS. For example, DFAS does not control the inventories of PP&E for USTRANSCOM components. DoD Regulation 7000.14-R also requires that when a customer outside of the control of DFAS maintains subsidiary records, DFAS must establish a schedule to reconcile the subsidiary records with the financial balances.

**Fixed Assets.** Specific PP&E guidance for fixed assets is contained in DOD Regulation 7000.14-R, volume 4, "Accounting Policy and Procedures," January 2001, chapter 6, "Property, Plant, and Equipment." Chapter 6 establishes policy for when to start accounting for depreciation, what cost to use for calculating depreciation, and who reports the value of buildings when the owner and tenant are not the same organization.

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- Depreciation of an asset begins the month the asset becomes available for service or mid-year of the year the asset enters service.
  - The recorded cost of general PP&E assets is the basis for computing depreciation. The recorded cost may be different from the acquisition cost, book value, or fair market value, since the recorded cost may include additional ancillary costs.
  - When a working capital fund organization is the preponderant user of a facility, that working capital fund organization shall report and depreciate that facility on its annual financial statements.

## **USTRANSCOM Chief Financial Officer Process**

DFAS Indianapolis placed USTRANSCOM PP&E values in the FY 2000 DoD Agency-Wide Financial Statements as part of the Other Defense Organizations-Working Capital Funds. DFAS Indianapolis received its information from DFAS Denver. DFAS Denver received its information from five trial balances prepared by DFAS Omaha. Each of these trial balances represented a different component of USTRANSCOM. Three of the five components had both a transportation working capital fund element (USTRANSCOM) and a Service element. The working capital fund and Service elements both possess PP&E. HQ TRANSCOM and the DCS were exclusively working capital fund elements.

DFAS Omaha prepared the five USTRANSCOM trial balances using PP&E data from various sources. The source of the PP&E amounts for the MTMC and MSC were property subsidiary ledgers that was part of their accounting systems. MTMC used the Financial Management System as its accounting systems, and MSC used Oracle. DFAS Omaha maintained the PP&E subsidiary ledger for MTMC, and HQ MSC maintained its own subsidiary ledger. DFAS Omaha did not use subsidiary ledgers as the source of the amounts for HQ TRANSCOM, AMC, and DCS. Because the DCS PP&E reporting was limited to real property amounts of approximately \$3 million, we did not address it further in this report.

## **Source of HQ TRANSCOM and AMC Amounts**

**Values for Asset Accounts.** HQ TRANSCOM and AMC could not support their PP&E values because they did not use subsidiary ledgers as the source of the amounts reported for PP&E. Because they did not provide DFAS with information derived from subsidiary ledgers, DFAS used alternative procedures for reporting the value of PP&E. The amounts DFAS reported for the PP&E asset accounts consisted of three elements. The three elements of the asset account amounts were a base amount, Construction-In-Progress (CIP), and expenditure amounts.

- The base (\$1.09 billion) was composed of PP&E amounts reported for several previous years. This base did not include the FY 1999 allocation of CIP to the property account.

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- The CIP account included costs (\$730.6 million) for real property, equipment, and software that DFAS had accumulated over several years and then allocated to the asset accounts during preparation of the FY 1999 financial statements. DoD policy is that the CIP account is used for accumulating costs for real property, not equipment and software.
  - Expenditure amounts were the FY 2000 expenditures (\$249.1 million) for real property, equipment, and software that DFAS added to the asset amounts reported in FY 1999.

**HQ TRANSCOM and AMC Depreciation.** HQ TRANSCOM and AMC calculated their PP&E depreciation and provided the amounts to DFAS Omaha. Both HQ TRANSCOM and AMC calculated depreciation on amounts budgeted for asset acquisitions rather than on the recorded cost of assets in their possession. DoD guidance states that depreciation begins the month or mid-year of the year the asset enters service. The guidance further states that the recorded cost of the asset is the basis for calculating depreciation. Neither the date the asset entered service nor the recorded cost of an asset can be known if budget amounts are used as the basis for calculating depreciation.

Accurate financial reporting of PP&E assets depends on reliable subsidiary ledgers as the source of asset values and information on which to calculate depreciation for individual assets. Without the dates that assets enter service and the actual recorded cost of on-hand assets, the Components cannot support reported asset or depreciation amounts. HQ TRANSCOM, AMC, MTMC, and MSC all had subsidiary ledgers, but only MTMC and MSC were using them for financial reporting.

## Component Subsidiary Ledgers

**Current Methods for PP&E Reporting.** USTRANSCOM components did not use a single property system (subsidiary ledger) or a single accounting system for PP&E reporting. Rather, HQ TRANSCOM and AMC maintained property accountability records for real property and equipment in Air Force logistic systems that were not integrated with the accounting system. Although accountability for their Information Technology equipment was maintained in the Air Force Integrated Processing Management System (IPMS), software was not. MSC and MTMC recorded software assets in the fixed asset subsidiary ledgers; and the ledgers were integrated with their accounting systems.

**PP&E Ownership.** A key prerequisite for accurate financial reporting is correctly identifying the owner on the property record. HQ TRANSCOM and AMC used the same code to identify ownership in the Air Force property systems. The inability to distinguish between the Components was a reason DFAS Denver gave for not using the systems for USTRANSCOM financial statement reporting. Additionally, both AMC working capital fund organizations and other AMC general fund organizations recorded assets in the Air Force systems. This created the potential for misidentification between working capital fund and general fund assets. Such misidentification could result in reporting the asset amounts on the wrong financial statements.

Table 3 lists the subsidiary ledgers that DFAS used or should have used as the source of PP&E data for USTRANSCOM financial statement reporting.

<b>Table 3. Major Property Subsidiary Ledgers</b>					
System	Type of System	Component	Type of Assets	Calculates Depreciation	Used for FY 2000 Statements
ACES	Logistics	HQ & AMC	Real Property	Yes	No
AFEMS	Logistics	HQ & AMC	Non-IT-Equipment	Yes	No
IPMS	Logistics	HQ & AMC	IT Equipment & Software	Yes	No
FMS	Accounting	MTMC	Real Property & Equipment	Yes	Yes
Oracle	Accounting	MSC	Equipment & Software	Yes	Yes
ACES                      Automated Civil Engineering Systems AFEMS                    Air Force Equipment Management System IT                            Information Technology IPMS                       Information Processing Management System FMS                        Financial Management System					

**Air Force Systems.** Although HQ TRANSCOM and AMC used the Air Force property systems for PP&E accountability, they did not use them for financial reporting. Nonetheless, the same Air Force systems were the primary source of PP&E amounts for the Air Force general fund financial statements.

**MTMC Subsidiary Ledger.** DFAS Omaha derived the MTMC reported amounts from a subsidiary ledger that DFAS Omaha reconciled quarterly to the property records. The subsidiary ledger was integrated with the Financial Management System. We did not test the MTMC subsidiary ledger for existence and completeness, but reviewed the management controls associated with the quarterly reconciliation process. The quarterly reconciliation was in accordance with the DOD Regulation 7000.14-R requirement to have a periodic reconciliation between the property records and the financial records.

**MSC Subsidiary Ledger.** In July 2000, MSC converted to a new accounting system that includes a subsidiary ledger. We did not perform existence and completeness tests on the subsidiary ledger, but we did review the process and data used to populate the new system. The MSC subsidiary ledger differentiated between MSC working capital fund assets and other MSC assets. MSC recorded its equipment and software in the subsidiary ledger regardless of whether the asset's value met the capitalization threshold.

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## Changing the Process

For HQ TRANSCOM and AMC to reliably report asset values and depreciation using the Air Force property systems as subsidiary ledgers, several actions must be taken, including improvements to management controls. Effective management controls are essential to ensure that the subsidiary ledgers contain accurate values and dates along with ensuring that all owned PP&E is recorded. They also ensure that recorded values are changed or deleted when an asset is modified or disposed. Before HQ TRANSCOM and AMC can rely on the Air Force systems to support the management assertions embodied in their financial statements, they must complete several tasks. The applicable assertions are existence, completeness, valuation, and rights and obligations. Table 4 presents the tasks and links them to the management assertion the task supports.

<b>Table 4. Tasks Required to Meet Financial Reporting Standards by Using Subsidiary Ledgers</b>	
<b>Management Assertion</b>	<b>Task</b>
Rights & obligations	Each Component's PP&E equipment assets must be separately identified in the Air Force property systems using Component unique ownership codes.
Rights & obligations	AMC must ensure that its units correctly differentiate between AMC working capital fund and AMC general fund assets and then code the records appropriately.
Completeness & existence	HQ TRANSCOM and AMC must verify that all their assets are recorded in the property systems (completeness) and that all recorded assets are on hand (existence).
Completeness	HQ TRANSCOM and AMC must ensure that all information technology equipment is recorded in the IPMS system, including equipment in the hands of contractors.
Completeness	All software must be recorded in IPMS including the cost and the date entered service.
Valuation	The acquisition date or date placed in service along with the recorded cost must be verified for each PP&E asset meeting the capitalization threshold.
Valuation	The asset and depreciation amounts reported in the FY 2000 financial statements must be reconciled with the amounts recorded in the property systems.

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## Annual Statement of Assurance

The problems identified for USTRANSCOM reporting have existed for a number of years. Several Inspector General, DoD, and Air Force Audit Agency reports have identified problems with one or more categories of PP&E. For example, Inspector General, DoD, Report No. 97-112, "Air Mobility Command Financial Reporting of Property, Plant, and Equipment," March 19, 1997, notes that, "Since FY 1993, the Inspector General (IG), DoD, and the Air Force Audit Agency have been unable to determine the fairness of AMC PP&E accounts." The report also notes that despite the availability of data needed for financial control of physical assets, AMC did not use the data to maintain financial control of assets. In its report, Project 98068025, "Airlift Services Division, Property, Plant, and Equipment Accounts, Air Force Working Capital Fund, Fiscal Year 1998," 13 April 1999, the Air Force Audit Agency states that, "AMC organizations did not possess adequate subsidiary records, data systems, and internal controls to support real property, equipment, automated data processing systems and the related accumulated depreciation balances." The report states, and we agree, that AMC should report weaknesses in their Annual Statement of Assurance. USTRANSCOM did not report this weakness in its Annual Statement of Assurance, 15 November 2000. Although the Air Force Audit Agency confined its work to AMC, the same conclusions apply to HQ TRANSCOM who uses the same accountability and nearly the same reporting procedures and method for calculating depreciation. The need for subsidiary ledgers was well known, and timely action to start using the subsidiary ledgers was lacking.

## Recommendations and Management Comments

1. We recommend that the Commander in Chief, U.S. Transportation Command, and the Director, Defense Finance and Accounting Service Denver, jointly develop an implementation plan for obtaining the property, plant, and equipment information for financial statement reporting from standard Air Force property systems. The plan must include the specific tasks at Table 4, task assignments, milestones, progress metrics, and exit criteria. In summary, the Headquarters U.S. Transportation Command and Air Mobility Command must:

a. Accurately identify the correct Component information in the Air Force databases for each item of property, plant, and equipment.

**Management Comments.** The Deputy Commander in Chief, U.S. Transportation Command, concurred and stated that changes will be made to Air Force property systems to differentiate among the Components. The Director for Accounting, Defense Accounting and Finance Service, also concurred.

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**b. Verify the existence and completeness of the Air Force databases for the Components' property, plant, and equipment.**

**Management Comments.** The Deputy Commander concurred and stated that existence and completeness would be verified by reconciling all system records with the actual assets and verifying that the information in the records about the assets is correct. The Director also concurred.

**c. Reconcile the value of the assets and accumulated depreciation reported in FY 2000 with the amounts recorded in the Air Force databases after Recommendations 1. a. and 1. b. are completed.**

**Management Comments.** The Deputy Commander concurred and stated that the value of the assets and accumulated depreciation would be reconciled with the property databases. The Director concurred and added that after completing the reconciliation, DFAS will report the identified differences as a prior period adjustment.

**d. Establish a task for the Defense Finance and Accounting Service and the Air Force to create electronic interfaces between the logistics and the accounting systems for transferring data, that is, integrate the property systems with the accounting systems.**

**Management Comments.** The Deputy Commander concurred and stated that the accounting and logistics systems would be integrated. The Director said that the three logistics systems will interface with Defense Finance and Accounting Center Denver systems and estimated that the interface will be completed by September 30, 2002.

**2. We recommend that the Commander in Chief, U.S. Transportation Command, add property, plant, and equipment reporting as a material weakness to the Annual Statement of Assurance as required by the Federal Managers' Financial Integrity Act for Headquarters, Transportation Command and the Air Mobility Command.**

**Management Comments.** The Deputy Commander agreed to add Property, Plant, and Equipment reporting as a material weakness in the next Annual Statement of Assurance for U.S. Transportation Command.

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# Appendix A. Audit Process

## Scope and Methodology

**Work Performed.** In this financial-related audit, we identified and evaluated the policies, processes, and procedures for the financial reporting of \$1.4 billion of USTRANSCOM PP&E on the FY 2000 DoD Agency-Wide Financial Statements. We focused on real property, non-information technology equipment, software, and information technology equipment. We did not review land or other natural resources, which were included with the PP&E reported for USTRANSCOM. We identified and evaluated the sources, reliability, and support for the amounts reported. We also evaluated the management controls associated with the flow of PP&E information from the customer through DFAS to the financial statements. During the course of this audit we met with and gathered information and data from DFAS, HQ TRANSCOM, MTMC, MSC, AMC, and DCS.

**DoD-Wide Corporate-Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to the following corporate-level goal, subordinate performance goal, and performance measures.

**FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key war-fighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-D-2.5.2)**

**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

- **Financial Management Area.** Objective: Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the financial management high-risk area.

**Use of Computer Processed Data.** We reviewed computer-processed data without performing tests of system general and application controls to confirm

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the reliability of the data. Moreover, we did not establish reliability of the data by performing existence, completeness, and valuation testing of the databases because three of five Components were not using databases for USTRANSCOM financial statement reporting. In addition, we did not test the reliability of the Command On-line Accounting Systems database because DFAS should not have used it as the source of reported amounts for PP&E. The Command On-line Accounting Systems is the source of the expenditure data that DFAS Omaha used to prepare the trial balances for HQ TRANSCOM, AMC, and DCS. We are not using the data to make projections about the reported amounts. Because HQ TRANSCOM, AMC, and DCS did not use the Air Force property systems for financial statement reporting, the accuracy of the Air Force property systems did not have an impact on our audit. If USTRANSCOM and DFAS implement our recommendations, the accuracy of the Air Force systems will affect future financial statements.

**Audit or Evaluation Type, Dates, and Standards.** We performed this financial-related audit from May 2000 through April 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did our work in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

**Contacts During the Audit.** We visited or contacted individuals and organizations within the DoD. Further details are available on request.

## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of DFAS, USTRANSCOM, and its Component commands' management controls for reporting property, plant, and equipment in the Chief Financial Officer statements. Specifically, we reviewed the management controls to ensure that the amounts reported on the financial statements for PP&E were accurate and that USTRANSCOM and DFAS could support the reported numbers. We reviewed the USTRANSCOM self-evaluation applicable to those controls.

**Adequacy of Management's Controls.** We identified a material management control weakness for USTRANSCOM as defined by DoD Instructions 5010.40. Management was not able to support the amounts reported on the financial statements and had not taken adequate steps to correct problems identified in previous Inspector General, DoD, and Air Force Audit Agency reports.

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Recommendation 1., if implemented, will correct the reported weakness. A copy of the report will be provided to the senior official responsible for management controls in USTRANSCOM.

**Adequacy of Management's Self-Evaluation.** USTRANSCOM officials did not identify financial reporting of PP&E as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit. Because PP&E reporting problems were known to exist and had been documented in prior audit reports, the reporting problems should have been included in the Annual Statement of Assurance required by the Federal Managers' Financial Integrity Act. Recommendation 2., when implemented, will correct this omission.

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## **Appendix B. Prior Coverage**

### **General Accounting Office Reports**

GAO Report No. NSIAD-99-100 "Military Infrastructure: Real Property Management Needs Improvement," (Letter Report, September 7, 1999)

### **Inspector General, DoD**

Inspector General, DoD, Report No. 99-134, "Year 2000 Compliance of Selected Air Mobility Command Systems," April 13, 1999

Inspector General, DoD, Report No. 98-205, "Financial Management Practices in the Military Sealift Command," September 25, 1998

Inspector General, DoD, Report No. 98-050, "Defense Business Operations Fund Adjustments at the Defense Finance and Accounting Service Denver Center," January 20, 1998

Inspector General, DoD, Report No. 98-046, "Military Traffic Management Command Financial Reporting of Property, Plant, and Equipment," January 14, 1998

Inspector General, DoD, Report No. 97-112, "Air Mobility Command Financial Reporting of Property, Plant, and Equipment," March 19, 1997

### **Naval Audit Service**

Naval Audit Service, Report No. 055-99, "Fiscal Year 1998 Financial Internal Controls at Military Sealift Command," August 19, 1999

### **Air Force Audit Agency**

Air Force Audit Agency Report, Project 98068025, "Airlift Services Division, Property, Plant, and Equipment Accounts, Air Force Working Capital Fund, Fiscal Year 1998," April 13, 1999

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army  
Commander, Military Traffic Management Command

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Auditor General, Department of the Navy  
Commander, Military Sealift Command

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Deputy Assistant Secretary (Financial Operations)  
Auditor General, Department of the Air Force  
Commander, Air Mobility Command

### **Unified Commands**

Commander in Chief, U.S. Transportation Command

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Denver

### **Non-Defense Federal Organizations**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform



# U.S. Transportation Command Comments



## UNITED STATES TRANSPORTATION COMMAND

508 SCOTT DRIVE  
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

5 July 2001

MEMORANDUM FOR DOD IG

FROM: TCDC

SUBJECT: DOD IG Draft Audit Report, "U.S. Transportation Command's Reporting of Property, Plant, and Equipment Assets on the FY 2000 DOD Agency-Wide Financial Statements" (Project No. D2001FH-0044.00)

1. We reviewed subject draft audit report and concur with your finding. The United States Transportation Command, Department of the Air Force, and the Defense Finance and Accounting Service are working together to correct discrepancies in reporting and accounting for property, plant, and equipment. Attached is our specific response.
2. If you have any questions or require additional information, please call our point of contact, Lt Col Stephen McAllister, USTRANSCOM/TCJ8-A, DSN 779-1151 (commercial 618-229-1151).

DANIEL G. BROWN  
Lieutenant General, U.S. Army  
Deputy Commander in Chief

Attachment:  
USTRANSCOM Comments on  
DOD IG Draft Report

cc:  
DFAS

Printed on recycled paper



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**USTRANSCOM Comments on the  
DOD IG Draft Audit Report dated May 7, 2001  
(Project No. D2001FH-0044.00)**

**“U.S. Transportation Command’s Reporting of Property,  
Plant, and Equipment Assets on the FY 2000 DOD Agency-Wide  
Financial Statements”**

**Recommendation 1:** The DOD IG recommends “that the Commander in Chief, United States Transportation Command (USTRANSCOM) and the Director, Defense Finance and Accounting Service Denver (DFAS-DE) jointly develop an implementation plan for obtaining the property, plant, and equipment information (PP&E) for financial statement reporting from standard Air Force property systems. The plan must include the specific tasks at Table 4, task assignments, milestones, progress metrics, and exit criteria.” In summary, USTRANSCOM and Air Mobility Command (AMC) must:

- a. Accurately identify the correct Component information in the Air Force databases for each item of property, plant, and equipment.
- b. Verify the existence and completeness of the Air Force databases for the Components’ property, plant, and equipment.
- c. Reconcile the value of the assets and accumulated depreciation reported in FY 2000 with the amounts recorded in the Air Force database after completing Recommendations 1.a. and 1.b.
- d. Establish a task for DFAS and Air Force to create electronic interfaces between the logistics and the accounting systems for transferring data, that is, integrate the property systems with the accounting systems.

**USTRANSCOM Comments: Concur.** Representatives from DFAS-DE, Secretary of the Air Force – Financial Management, AMC, and USTRANSCOM met in May 2001 to address PP&E issues. During this meeting, we began the process of jointly developing a plan to obtain timely and accurate PP&E financial data from existing financial and property systems. USTRANSCOM J8 will coordinate a combined effort to resolve PP&E discrepancies. This effort will result in:

- a. Developing system changes to Automated Civil Engineering System (ACES), Air Force Equipment Management System (AFEMS), and Information Processing Management System (IPMS) to differentiate between USTRANSCOM, AMC, and Defense Courier Service (DCS) assets.

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b. Reconciling all system records for USTRANSCOM, AMC, and DCS against actual assets. This includes reconciling physical presence, date placed in service, acquisition cost, assigned users, and accumulated depreciation.

c. Reconciling the value of the assets and accumulated depreciation reported in FY 2000 with the amounts recorded in the Air Force databases (ACES, AFEMS, & IPMS).

d. Ensuring DFAS and Air Force create electronic interfaces between logistics and accounting systems for transferring data -- integrate property systems with accounting systems.

Estimated Completion Date: January of 2003.

**Recommendation 2:** The DOD IG recommends that USCINCTRANS add PP&E reporting as a material weakness to the Annual Statement of Assurance as required by the Federal Managers' Financial Integrity Act for USTRANSCOM and AMC.

**USTRANSCOM Comments: Concur.** We will add PP&E as a material weakness in the next Annual Statement of Assurance.

Estimated Completion Date: 15 Nov 01.

# Defense Finance and Accounting Service Comments



DFAS-DAS

## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291  
WWW.DFAS.MIL



JUL - 6 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: Audit Report on U.S. Transportation Command's Reporting of Property, Plant, and  
Equipment Assets on the FY 2000 DoD Agency-Wide Financial Statements (Project  
No. D2001FH-0044.000)

Our response to the subject audit is attached. The point of contact is Mr. David Arvin,  
(703) 607-2857 or DSN 327-2857.

  
Robert P. McNamara  
Director for Accounting

Attachment:  
As stated

cc:  
DFAS-DDI  
DFAS-AAIP/DE

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**DFAS Comments on DoDIG Audit Report on U.S. Transportation  
Command's Reporting of Property, Plant, and Equipment Assets on the FY  
2000 DoD Agency-Wide Financial Statements (Project  
No. D2001FH-0044.000)**

**Recommendation 1.** We recommend that the Commander in Chief, U.S. Transportation Command and the Director, Defense Finance and Accounting Service Denver jointly develop an implementation plan for obtaining the property, plant, and equipment information for financial statement reporting from standard Air Force property systems. The plan must include the specific tasks at Table 4, task assignments, milestones, progress metrics, and exit criteria. In summary, the Headquarters U.S. Transportation Command and Air Mobility Command must:

a. Accurately identify the correct Component information in the Air Force databases for each item of property, plant, and equipment.

**Management Comments.** Concur. Property, plant, and equipment (PP&E) in Air Force databases will be identified and separated by military component. There are three components in the Air Force accounting databases--fund code 68 for Air Mobility Command; fund code 6F for Headquarters, U.S. Transportation Command (HQ USTRANSCOM); and fund code 6J for Defense Courier Service. However, these same fund codes are not in the PP&E databases. They will be incorporated in FY 2002. For FY 2001, the PP&E values and applicable depreciation will be extracted from the Automated Civil Engineer System, the Air Force Equipment Management System, and the Information Processing Management System based on the old fund code 6G, which is available in the three systems. If the data have been divided into fund codes 68, 6F, and 6J, a simple extract could obtain the necessary data. If the data have not been divided, in most cases the data would be assigned to fund code 6F and journal vouchers would be made in the chief financial officers' systems at the departmental level.

**Estimated Completion Date.** September 30, 2002.

b. Verify the existence and completeness of the Air Force databases for the Components' property, plant, and equipment.

**Management Comments.** Concur. Verification of all PP&E balances for USTRANSCOM components will be identified and validated. The Air Force established the estimated completion date to verify the existence and completeness of the balances. DFAS agreed to assist in this process to assure that all balances are accurate.

**Estimated Completion Date.** September 30, 2003.

c. Reconcile the value of the assets and accumulated depreciation reported in FY 2000 with the amounts recorded in the Air Force databases after Recommendations 1.a. and 1.b. are completed.

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**Management Comments.** Concur. The balances reported by USTRANSCOM in FY 2000 basically were budgetary figures. The difference between the ending FY 2000 figures and the beginning FY 2001 figures need to be reconciled. The differences will be reported as a prior period adjustment to report a correct beginning balance.

**Estimated Completion Date.** September 30, 2003.

d. Establish a task for the Defense Finance and Accounting Service and the Air Force to create electronic interfaces between the logistics and the accounting systems for transferring data, that is, integrate the property systems with the accounting systems.

**Management Comments.** Concur. A working group of members of USTRANSCOM and DFAS has been formed to address the recommendations. The three systems in use are projected to interface with the PP&E data in the Denver Data Mart for use by the Centralized Standard Material Accounting System in the preparation of the financial statements. Action items have been assigned to members of the working group, and progress is being tracked by HQ USTRANSCOM.

**Estimated Completion Date.** September 30, 2002.

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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